Statement of Mr. Stenholm
USDA Budget, FY 2002
House Committee on the Budget
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Mr. Chairman, thank you for this opportunity to testify today as the Committee on the Budget considers USDA's budget for FY 2002.

It is fitting that agriculture continues to be a focal point in our budget discussions. The current farm recession is now entering its fourth year and ranks among the deepest since 1915. This includes the agriculture recessions the nation experienced during the Great Depression, World War II, and the 1980's farm financial crisis.

I know that many of you are familiar with the figures. Net cash income over the last three years fell, in real dollars, to its lowest point since the Great Depression. Put another way, last year's prices were a 27-year low for soybeans, a 25-year low for cotton, a 14-year low for wheat and corn, and an 8-year low for rice.

With essentially no improvement in commodity prices over last year, farmers are left with tighter cash flows and serious questions about how they are going to make ends meet.

Farm debt this year will surpass $180 billion for the first time in 16 years, and farm production costs are expected to increase $1.5 billion. The impact of the skyrocketing cost of natural gas is now rippling throughout the farm sector in the form of higher costs for nitrogen fertilizer and irrigation.

Repercussions are still being felt from the Asian economic crisis that began three years ago. In addition, three years of good weather worldwide have created bumper crops all around the globe. This has driven down prices and cut into potential markets for US producers.

Compounding this situation for American producers is the strength of the US dollar, which has contributed to a substantial increase in the relative cost of US commodities.

Despite some progress in lowering trade barriers through the World Trade Organization, the fact remains that the average tariff on US farm products in other countries is 62 percent, while the average US tariff on goods coming into the US is around 12 percent. Additionally, the European Union continues to outspend the US on agriculture, having spent $47 billion last year alone.

It is precisely these conditions that have led Congress to provide $18.1 billion in emergency income assistance over the last three years. This assistance was clearly needed and there was no question about whether or not Congress would act. This is why the Agriculture Committee has begun the process of developing legislation to provide multi-year additional income assistance.

The Agriculture Committee is currently holding hearings during which commodity and producer groups make specific recommendations on what Congress can do to bolster the farm safety net. These hearings are laying the groundwork for future farm policy and will help us as we write the next farm bill.

Given our experience over the past three years, it is my view that the budget allocation for agriculture should be permanently increased, rather than providing additional assistance on an emergency, ad hoc basis. The reasons for doing so are twofold: the first rests on the need for certainty in farming, and the second on budget discipline.

Ad hoc assistance is, by its very nature, unpredictable. Producers and lenders alike are understandably nervous about including any dollar figure for ad hoc assistance as they prepare cash flow calculations for producer financing. The current unpredictability of assistance affects not only producers and lenders, but ripples throughout the rest of the agricultural sector. When farmers and ranchers are unsure about income, they don't spend money with retailers, input suppliers, equipment manufacturers, or anyone else.

Everyone who has testified before the Agriculture Committee thus far has requested additional amounts for agricultural spending. I am working with the Chairman and I am hopeful that we will eventually be able to introduce legislation that will ease the crisis. This is dependent, however, upon the provision of additional resources for agriculture.

Many of you have seen the letter from the commodity and farm groups requesting $9B for 2002 and $12B for each year thereafter. Let me pose a question to the Members of the Budget Committee who also represent agricultural interests: ***Do you believe that we will provide additional spending this year for agriculture?*** **If your answer is in the affirmative, then now is the time to budget for it.**

The second reason for increasing the allocation for agriculture is the recognition of the need for a more predictable and disciplined approach to budgeting. The past three years have shown that Congress has the will to provide necessary assistance when existing programs are inadequate, but emergency waivers of the Budget Act have led to greater spending than might otherwise have occurred.

For example, when included in the FY 2001 Budget Resolution, the Committee on Agriculture spent the $7.1 billion that the resolution provided. That was not the case six months later, however, when another $8.9 billion was spent under emergency declaration.

I see two major deficiencies with the administration's FY 2002 budget for agriculture:

(1) It fails to provide a realistic budget for agriculture, given the additional ad hoc spending Congress has provided during the last three years.

(2) The budget relies upon an overall contingency fund that includes agriculture, when the amounts in the fund are already oversubscribed.

The reliance upon ad hoc spending for agriculture is simply unacceptable. As I indicated earlier, producers can't reliably set a budget, and bankers don't like the uncertainty. In addition, undisciplined budgeting results in deficit spending or dipping into the Social Security or Medicare trust funds….funds which we are all pledged to protect. It also creates additional pressure on other important programs.

For example, conservation programs have greatly decreased soil erosion from wind and water. These programs are not a one-time investment; they are influenced by the weather and must be maintained year after year. We spend far less today on conservation programs than we did 50 years ago. Consider these unmet conservation needs:

The Wetlands Reserve Program has 3,153 applications pending to enroll another 562,000 acres; this is nearly 60 percent more than is currently enrolled.

The Environmental Quality Incentives Program (EQIP) has 197,000 applications to enroll an additional 66.6 million acres. The net cost to meet this demand would be over $1 billion.

The Wildlife Habitat Incentives Program has 3,017 applications pending to improve an additional 564,000 acres over the current 1.4 million acres.

These programs deliver services and benefits that the private sector cannot provide. While the private sector would realize few benefits by carrying out these programs, the public benefits are enormous. The question then becomes whether such benefits are best gained through incentive-based programs or through government regulation. Without public expenditure, however, there could be enormous public and private costs.

Rural development spending is another example of well-considered public spending in one area that forestalls greater spending in another. The strong economy that our nation has enjoyed these past several years has created improved employment in rural areas, as well as in cities and suburbs. The opportunity for off-farm income is helping many smaller farm families survive, when they might not otherwise do so.

Survey data from 1999 shows that farm households where the primary occupation was farming, but where sales were less than $250,000, comprise about 30% of all farms. Off-farm income provided 85 percent of total average household income for farms with sales less than $100,000. Off-farm income provided 37 percent of total average household income for farms with sales from $100,000 to $250,000.

In spite of the $18.1 billion that was spent in emergency income assistance during the past three years, President Bush's budget fails to provide additional money for income assistance for farmers, and leaves the baseline for agriculture unchanged. The Administration has stated that ***"we may need to increase spending for our farmers"*** and maintains that a portion of the contingency fund could be used to help farmers. Claims on the contingency fund, however, may exceed the money available.

Those of us who insist that Congress act on a budget resolution ***before*** voting on tax or spending legislation are not arguing about process or arcane budget rules. This argument is about acting responsibly to balance priorities important to our constituents. While we all support enacting the largest tax cut we can afford, we have a responsibility to consider what impact the tax cut will have on our ability to meet agriculture's needs before we enact a tax cut.

Just as the American people deserve to know what impact the tax cut will have on the priorities that are important to them, America's farmers and ranchers must be able to predict with some degree of certainty what their income assistance will be so that they can work with their bankers to make plans for the next five years.

An over-tapped contingency fund provides no certainty for our producers. At the time when they are in the greatest need, producers of our nation's food and fiber should not have to concern themselves with the adequacy of contingency fund monies, with competing needs of other programs, or with points of order against the use of Social Security or Medicare trust fund monies. There is no other fiscally prudent or rational alternative than to provide permanent authority to address agriculture's needs in the budget resolution.